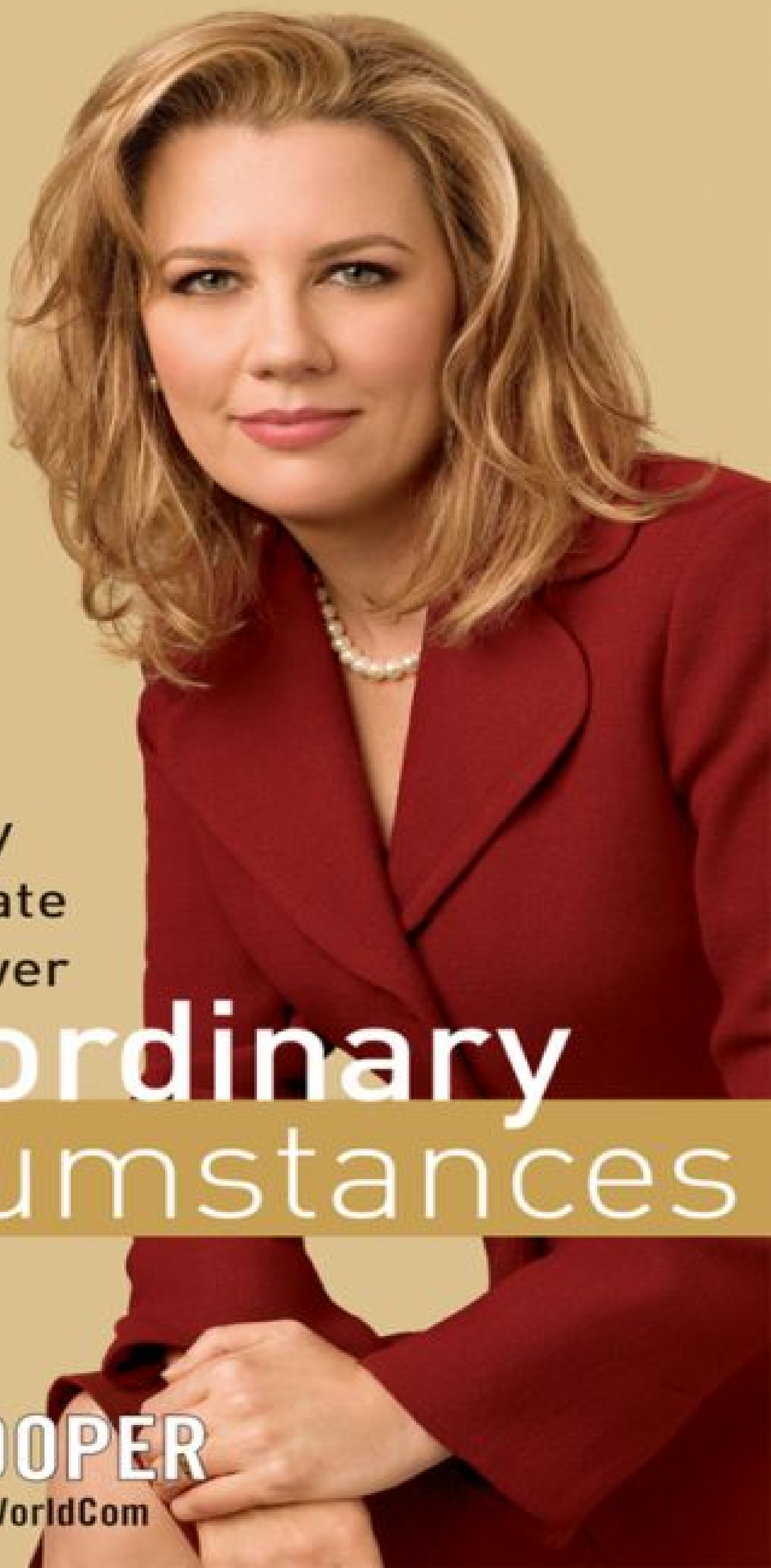

The Journey
of a Corporate
Whistleblower

Extraordinary Circumstances

CYNTHIA COOPER

Former Vice President, WorldCom

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Extraordinary Circumstances

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To Lance, Stephanie, and Anna Katherine the loves of my life.

INTRODUCTION

I never aspired to be a whistleblower. It wasn't how I envisioned my life. But life is full of unexpected turns.

My team and I were ordinary citizens who found ourselves facing extraordinary circumstances. In 1994, in my late 20s, I took a risk by going to work for WorldCom—then known as LDDS (Long Distance Discount Services)—establishing a start-up Internal Audit group with only two staff auditors, both of whom had virtually no prior audit experience. WorldCom was an underdog company, with an underdog CEO, headquartered in an underdog state. And while there would be many challenges, what an incredible opportunity my team and I had before us. In my first eight years, company revenues grew from $1.5 billion to over $38 billion. WorldCom transformed from a speck in the industry to one of the largest telecom companies in the world, employing some 100,000 people. We had helped grow a small regional company that bought and re-sold long distance in the South into an international behemoth that operated in over 65 countries.

Setting one record after another, WorldCom boasted what was then the largest acquisition and debt offering in corporate history. The stock price soared and investors cheered as WorldCom delivered some of the highest returns on Wall Street. The stock became the fifth-most widely held; and, in 1996, the Wall Street Journal ranked WorldCom Number One in return to shareholders over a ten-year period.

Bernie Ebbers, our CEO, was larger than life, a local folk hero who lived the rags-to-riches American dream. Coming from very humble beginnings, by 1999 he was Forbes'

174th wealthiest American. In addition to the jobs Bernie helped create, he donated millions to charity. There was even speculation that he would one day run for Governor.

Bernie grew the company quickly through acquisition. He was praised in the press as he closed one deal after another, acquiring some 70 companies in just two decades. Bernie “was an outsider, a nobody, in telecom,” wrote Network World in 2001. “Today, he’s considered one of the industry’s most powerful people.”

Scott Sullivan, appointed CFO at the young age of 33, was also highly respected. Wall Street regarded him as a financial wizard and a straight shooter. In 1997, with compensation of more than $19 million, he was the highest-paid CFO in the country. In 1998, CFO Magazine awarded him the CFO Excellence Award for mergers and acquisitions. “[Scott] walked on water,” the magazine’s editor said, describing Wall Street’s perception of him in the late 1990s.

WorldCom became Mississippi’s Cinderella story—a Fortune 500 company born right here in our state. Mississippi is the place of my birth and home of my people. Roots run deep with a love for rich fields, live oaks, magnolia blossoms, Gulf breezes, fried catfish, sweet tea and the Delta blues. But Mississippi is also poor and carries the burden of a troubled past. WorldCom was one of our greatest sources of pride, a sign that there might be better things in store for our state.

In 1997, the company announced that its headquarters would move from Jackson, the state capital, to Clinton—a suburb with a population of only 23,000, where my husband and I both graduated from high school and my parents still live. Clinton became one of the smallest towns to host a Fortune 500 company and exploded with commerce.

My nightmare started one hot June day in 2002. For a time, it seemed as if that summer would never end. I was 37 years old and the Vice President of Internal Audit. My team and I began to grow increasingly suspicious of some entries in WorldCom's books. The more we investigated, the stranger the reactions from some of our colleagues became. No one would give us a straight answer. People who helped make the entries said they didn't know what they represented, or tried to lead us in the wrong direction.

The CFO asked me to delay our audit work. The Controller insisted that we were wasting our time and should be auditing other areas of the company. The Chairman of the Audit Committee—a subset of the Board—instructed me not to ask for support for the entries, and to wait for Scott, the CFO, to provide me with an explanation.

I'd replay in my head, like a broken record, the barrage of comments I'd received—Make sure to separate emotion from business. This is nothing. You're chasing your tail. If you keep making a big deal of things, you're going to get fired. You're on Scott's to-do list; he just hasn't gotten to you yet. You're probably a decent auditor, but you don't have the expertise to be telling someone how to run their business. This is an external-audit issue, not an internal-audit issue. You can't call an Audit Committee meeting. It's not your job to be doing financial-statement auditing, and if you do, it will be low-level work that the external auditors don't want to do.

Turn off the noise, I tried to encourage myself. Don't allow yourself to be intimidated. But inside, I felt scared. My hands were shaking. My heart was pounding. Was I over-reacting? People I respected didn't seem concerned about the entries. Still, my instinct told me to press forward.

I found myself standing at a crossroads. Looking back, I would take the same path again. But doing the right thing doesn't mean there will be no cost to others, your family, or yourself.

None of us expect to find that our boss or peers have perpetrated a massive fraud. But that is exactly what happened that summer. On June 25, 2002, WorldCom announced that it had misstated its financial statements over the last five quarters by $3.8 billion, an amount that would ultimately grow to some $11 billion. The fraud immediately became an international, front-page scandal, and the lead story on news programs throughout the world. It would come to be known as the largest fraud in corporate history.

Many of us had devoted our careers, sometimes at the expense of our families and personal lives, to building WorldCom. Overnight, lives were changed forever. WorldCom once seemed unstoppable, but its fall from grace was both hard and fast. It all ended with broken trust, financial loss, and ruined careers. WorldCom filed the largest bankruptcy ever. Thousands of shareholders watched their investments evaporate; many had invested substantial portions of their savings and retirement funds in the stock. Innocent WorldCom employees lost jobs. The media jokingly dubbed the company WorldCon. Shock, disbelief, and a sense of betrayal replaced the pride many citizens, employees, and investors had felt.

How could this happen in the most respected capital market in the world? In trying to forestall and conceal the impending demise of this once-lauded company, some executives lost their way and led others astray as well. They embarked on a slippery slope—once they had begun to deceive, they did not regain their footing. Whatever rationalization was applied to the deceit, it brought nothing but ruin, the consequences of which are still felt today, and will continue to be felt for years to come.

The day before the fraud was announced, I was a private citizen. The day after, I became a public figure. I never contemplated being thrown into the spotlight and was completely unprepared. FBI agents suddenly appeared in my office. Members of the press were walking door-to-door in my neighborhood. Congress, Department of Justice prosecutors, and SEC officials were calling for interviews. I was an ordinary citizen who, like most people, preferred a private life, but I had stepped over some “invisible line” and become a whistleblower. Though I didn’t know it at the time, whistleblowers often experience negative repercussions. I would quickly learn first-hand what that meant.

I’ve tried to tell the story as I saw it, felt it, and lived it. I once hoped I could eventually put these thoughts and events away for good, and feel a sense of peace again. Now, I know what happened will always be a part of me, but my attitude toward it has changed, and sharing the story with others has helped me to heal. I’ve been passionate about completing this book because I believe there are valuable lessons that can be passed on to the next generation. I have finally found that place of healing and peace. But it has been a long journey.

ACKNOWLEDGMENTS

I couldn't have written this book without the encouragement of my mother Pat Ferrell, and her insistence that this was a story worth telling because it could help others faced with tough choices. My husband Lance was an unwavering source of strength for our family during the most trying times. Lance and my two daughters Stephanie and Anna Katherine have been exceedingly understanding about the time and dedication writing requires. ("How many more pages before you can play?" my six-year-old asked regularly.) My sister-in-law Rachel Ferrell and my father Gene Ferrell have worked countless hours helping to research and edit, and my brother Sam provided much-needed encouragement throughout. Each is a blessing, and I could not have done this without them. Thank you to each of my friends and family who took time to provide honest feedback on the manuscript.

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So many people, some of whom I have never met, took the time to call or write letters of encouragement during some of the most difficult times. To each of you: Thank you for your kind words. They meant a great deal and helped sustain me during those days.

CHAPTER 1
A Dark Cloud

> People don't wake up and say, "I think I'll become a criminal today." Instead, it's often a slippery slope and we lose our footing one step at a time.

It's the end of summer 2001. White linen tablecloths blow in the warm breeze of the evening. Candles glow softly throughout the backyard and patio. The weather is unseasonably gentle, a break from the usually sultry Mississippi humidity.

My husband Lance and I are at the home of David Myers, the WorldCom Controller, who oversees the accounting department. We're attending a shower for Scott Sullivan, the company's Chief Financial Officer, and his wife Carla. Recently, they adopted a beautiful baby girl, their only child and the reason for our celebration. Carla has been in and out of hospitals, battling diabetes, and has come close to death several times. Many of us know about her struggles with her health. The office has been buzzing with excitement at their good news.

Some 20 people have come together at David's home—executives reporting to Scott and spouses, as well as Bernie Ebbers, our CEO, and his wife Kristie, who are helping to host the shower. The Myers home is beautifully decorated, reminding me of one of the fine homes in Southern Living. Lance and I admire each room as David takes us on a tour, excitedly telling us about the changes he and his wife made after moving in. "We're trying to move Jack from his crib to the big bed," he says, pointing to his son's crib, still sitting in his room.

Scott and Carla are showing off their baby girl. With plump rosy cheeks, she looks like the perfect Gerber baby. We watch as they take turns feeding her a bottle. Scott, the man known as intensely serious at work, is suddenly very nurturing, almost giddy.

Only a few months before, Lance and I were also blessed with a beautiful baby girl, and I’ve just come back to work from maternity leave. Since our babies are only months apart, it’s been fun to talk to Scott and Carla about how our girls are growing, especially because Scott and I usually talk only about business. For my daughter’s birth, they gave us a small doll wearing a beautiful pink dress with smocking across the collar. It sits on a white shelf above my daughter’s bed. And Carla recently brought her daughter to the office wearing the dress Lance and I had given her.

Everyone ambles about, visiting and sampling the hors d’oeuvres. The tables scattered about the lawn overlook a beautiful lake. After dinner, we stand in a large circle on the back patio. The men smoke cigars and guests take turns telling humorous stories about old times. In typical fashion, Bernie Ebbers chews on an unlit cigar and occasionally throws out one of the one-liners he’s famous for, making everyone laugh.

The atmosphere is full of warmth and good-hearted banter, but an unseen cloud hangs over this seemingly perfect picture. Within two years, with the exception of myself and one other guest, every employee present will be gone from the company. Three will be criminally indicted for financial-statement fraud, and I will be thrust into the center of a storm.

That night reminds me that numbers and accounts are only part of what hung in the balance. What happened touched real people: The man who lost his children’s college fund, the elderly lady whose life savings disappeared, the employee living paycheck to paycheck and struggling to find another job. It also affected the families of those involved in the wrongdoing, who, on an emotional level, would endure the pain and serve prison sentences along with their loved ones. So happy and full of life at the dinner party, the faces of Kristie, Carla, and David's wife Lynn—the spouses of three of the men indicted—will soon show only pain and sorrow.

The Slippery Slope

> Sow a thought, reap an action; sow an action, reap a habit; sow a habit, reap a character; sow a character, reap a destiny.
>
> —Scottish author Samuel Smiles

It's October, 2000, a year before the dinner party. The accounting team at WorldCom has just closed the company's books for the third quarter. David Myers is shocked by the numbers. Line cost expense—what the company pays to lease telecommunications lines and to originate and terminate telephone calls, its single largest expense—is too high by hundreds of millions of dollars, driving earnings well below Wall Street expectations. Someone must have made an error. But where?

David is a Mississippi boy who's done well for himself. Tall with a slim build, he played basketball in high school and earned a degree in accounting from the University of Mississippi in Oxford. He started his career in public accounting with Ernst & Whinney (now Ernst and Young), one of the country's most prestigious firms, and then moved into industry with Lamar Life Insurance in Jackson, the state capital. Hard-working and friendly, David quickly moved forward professionally.

Things have been going well for him. He's happily married with three children, two from a previous marriage. In his early 40s, David has been able to achieve some financial security for his family. By working hard and putting in long hours, he's moved up the corporate ladder to Senior Vice President, commanding an annual salary close to a quarter of a million dollars. As the Controller, he reports directly to Scott Sullivan, the Chief Financial Officer, and has hundreds of finance employees under his charge.

David joined WorldCom in 1995. In his first years with the company, the stock soared. By 1999, when the stock hit a record high, his stock options were worth over $15 million. David has received some $700,000 in pre-tax profit by exercising his options. He and his wife moved into a lake-front home in an upscale neighborhood, and purchased a home for his wife's parents, but David has held the remainder of his options.

Now that potential wealth seems at risk of evaporating. The high-flying bull market of the 1990s is on a fast downhill slide. The Internet stock bubble that burst in March, 2000 is about to be followed by a less publicized but much larger and more devastating collapse: Telecom. The entire sector is in disarray, but many in the industry believe the problems are temporary. Still, the figures glaring back at David are far worse than expected. Are the numbers he sees an error or a train wreck in progress?

David isn't looking forward to presenting such bad news to his boss Scott Sullivan, especially since he has no idea why the numbers are so abysmal. But he knows he can't put it off. WorldCom soon has to release its quarterly earnings to the public. He walks through the halls joining the building where the accountants work with the one housing the executive suite, where Bernie and Scott have large adjacent corner offices. As he walks through the double glass doors to the suite, he sees the lighted bookcases he's seen so many times on his way in, filled with company memorabilia Bernie has collected over the years, including items marking each acquisition.

David takes a deep breath and walks into Scott's office. The glass windows taking up the entire wall behind Scott's desk provide a beautiful view of the small man-made lake, fountain, and walking trail below. But David is in no mood to admire the view. He might as well get right to it: The numbers are bad. He can't explain why. His department has checked and re-checked them. The accountants can't find any errors.

Scott isn't happy. This is unacceptable news. Surely, someone made a mistake. David is sent back to his office to go through the numbers again, or do whatever it takes to find and fix the errors. He asks several of his accountants to retrace their steps, but even the second time around, they find no mistakes. He returns to Scott with the news, but Scott still refuses to accept the numbers, insisting there's a mathematical mistake.

Management is now only days away from having to release financial results to the public. Scott and David know that if they report these results, WorldCom will not meet the earnings guidance executives previously issued. The stock price will get hammered, and analysts will downgrade their opinions, which could send the company into a downward spiral. And WorldCom depends on its high stock price to acquire companies.

The pressure is intense and building every hour. What are we going to do, David asks Scott. Scott is at a dangerous crossroads. He rationalizes that the cost of telling the truth is too high. In any case, there must be an error, he thinks, and it'll surely correct itself the following quarter. Change the numbers, he instructs David. Reduce line-cost expense so that the company can meet earnings guidance. “While [Scott] didn’t believe that this was the right and appropriate thing to do,” David later recalled, he said “this is what we needed to do at the time.”

Scott’s instructions are stressful for David. But David has always felt loyal to his boss, so he, too, rationalizes. This will be temporary. There must be an error. Scott is sure of it. Either way, WorldCom is just going through a tough time. The industry will soon turn around.

To change the financial statements, David will have to pull several of his mid-level accountants into the plan. David and Scott are at high enough levels in the company that they don’t actually make accounting entries in the system. The trusted inner circle will have to grow.

David decides to relay Scott’s message to his right-hand lieutenant, an accounting director named Buford (Buddy) Yates. David trusts Buddy. They’ve been friends for many years, having worked together at Lamar Life. Buddy joined WorldCom in 1997. With a stocky build and gray hair, some say he can be like a bulldog—he isn’t afraid to speak his mind and doesn’t mince words, turning gruff at times. This time is no exception. Buddy can’t believe what he’s hearing. Is Scott really serious? Very much so, David tells him.

David then turns to Betty Vinson and Troy Normand, two mid-level accountants who report to Buddy and play a key role in compiling the financial results. They’ll be able to analyze the details, help decide which specific accounts to adjust, and physically make changes in WorldCom’s accounting system.

Like Buddy, Troy and Betty are extremely uncomfortable with Scott’s request. This is beyond tweaking—to meet earnings expectations, they’d have to make adjustments in the hundreds of millions of dollars with no support and only the hope that the problem would correct itself. They're feeling upset and pressured, but there's little time to think things through—the company has to release its earnings to the public. All three are their families' primary breadwinners. Not following orders could mean losing jobs that aren't easily replaceable in Jackson, Mississippi. Begrudgingly, they decide to go along with the plan—this once.

The three split the work load. Buddy and Troy work on one side of the accounting entries, deciding which liability accounts can be reduced. Betty works on the other side, doing the same for expense accounts.

Because there are estimates in accounting, especially during acquisitions, companies sometimes overstate liabilities and expenses. This has to be corrected once the exact numbers have been determined, though some companies choose to leave them in place, creating what's known in accounting, disapprovingly, as rainy-day "cookie-jar reserves." These are the accounts that Betty, Buddy, and Troy are drawing down, but they don't have a legitimate business rationale. They're just drawing down reserves by whatever amount is necessary to meet earnings. "I just really pulled some [accounts] out of the air," Betty will recall.

Once the changes have been made, David takes Scott the adjusted financial statements. Now they're exactly what the boss wants to see, but David is worried that his accountants may jump ship. Both Betty and Troy have told him that they're contemplating resigning from the company. Buddy is also growing upset. They love their jobs and have been devoted to WorldCom, working long hours and often taking work home to continue through the night

—whatever it took to get the job done. But now, it seems, they're being forced to walk away.

Scott offers a solution—the company will reduce earnings guidance going forward so that, in the future, no one will have to make bad entries. David is relieved to hear the news. He asks Scott if he would mind personally reassuring the three accountants. Hearing it from someone so senior to them may make a difference.

Scott agrees to meet with the accountants. Buddy doesn't attend, but Betty and Troy are anxious to hear what Scott has to say. When they arrive at his office, he invites them to sit in the executive seating area in front of his desk. Employees usually sit around the large conference table, but the sofa and chairs make for a homier, more intimate setting.

Scott knows all too well what's at stake, and he pours it on thick and heavy. He appeals to their loyalty. He flatters. He assures Betty and Troy that the false entries were a one-time thing, since earnings guidance will be lowered. He thanks them for their hard work and apologizes that they had to do this. In any case, he still believes that the numbers in the initial statement were simply wrong and will correct themselves come next quarter.

"This is a situation where you have an aircraft carrier out in the middle of the ocean and its planes are circling up in the air," Scott tells the two accountants, according to David's recollection, "and what you want to do, if you would, is stick with the company long enough to get the planes landed to get the situation fixed. . . . Then if you still want to leave the company, then that's fine, but let's stick with it and see if we can't change this."

Troy tells Scott that he's "scared" and doesn't want to find himself "in a position of going to jail for [Scott] or the company.” Scott “said that he respected our concern,” Troy would later recall, but that “we weren’t being asked to do anything that he believed was wrong . . . but that if it later was found to be wrong, that he would be the person going to jail, not me.”

As Troy and Betty discuss the meeting on the way back to their offices, Troy wonders if maybe he’s making too much out of this. After all, Scott’s very smart and highly regarded. He must know what he’s doing. Still, in the end, he and Betty decide that they don’t feel any more comfortable. Not wanting to be pulled any further into Scott’s scheme, they think about resigning.

On October 26, 2000, the same day that WorldCom issues a press release announcing the third quarter financial results, Troy writes a formal letter of resignation addressed to Buddy and David: “Due to the circumstances surrounding the third quarter 2000 close, I feel I have no choice but to resign. I have chosen not to participate in the recommended course of action and have also decided not to take any future risk.”

Betty composes a similar letter. “Dear Buddy, this letter is to serve as notice of my resignation from WorldCom effective today. The actions proposed regarding quarter close entries has necessitated this action. If needed, I can assist with any transition issues that may arise. My income situation is such that I request we… work out an equitable arrangement regarding some sort of salary and benefits continuation until I can obtain other employment, because I feel that upper management has forced my decision surrounding my resignation. This is not the course of action that I prefer, but feel I must take. It has truly been a pleasure working for you.”

Betty and Troy decide to hold their letters to see if the company will lower earnings guidance as Scott promised.

On November 1, 2000, five days later, WorldCom sends out a press release lowering future guidance. Scott has kept his word. But will the revised guidance be low enough to keep them from having to make these types of entries again?

Day after day, their letters unsent, outside pressure begins to weaken Troy and Betty's resolve. "Me and my wife had lost a set of twins in early 2000," Troy would explain. "Subsequent to that—I was the only income earner in the family. [Then] she had a miscarriage, and . . . soon thereafter she got pregnant once again. And I was scared to leave as the sole provider of my family." Doubts begin to grow in Betty's mind too. She's also the primary breadwinner. She has a young daughter and is worried that, in her mid-forties, it will be tough to find a comparable position. "I thought about it for a while, and I believed what Scott said, that this would be a one-time thing, go ahead and get through it," she later recalled. "I liked my job. These quarter close entries were so much removed from what I did every day, I liked the people I worked with, and I really wanted to stay there."

As 2000 draws to a close, David and the accountants discover bad news: Scott's prediction that the problem would reverse itself in the fourth quarter hasn't come true. What's worse, the new lower guidance still isn't enough to prevent doctoring the results. Once again, the four accountants find themselves forced to choose—blow the whistle and come forward with the truth, resign and say nothing, or make the entries and hope things will turn around next quarter.

Once again, Troy and Betty search the company's books for liability accounts they can reduce to offset the higher-than-expected line costs and lower-than-expected earnings. But such accounts are nearly depleted by now; this is the last quarter they can draw down excess in liability accounts to meet earnings. If the telecom market doesn’t make a drastic change for the better in the first quarter of 2001, Scott will have to come up with a new plan. Surely things will turn around by then and this will be the last quarter they’re asked to make unsupported entries.

But the end of the next quarter shows this was wishful thinking. The expected turnaround is nowhere in sight. Since the previously lowered accounts no longer have any excess amounts to draw down, Scott instructs his staff to employ a new scheme—count the excess line costs as capital assets instead of expenses. The cost of capital assets, like facilities and equipment, is written off over a much longer period than the cost of operational expenses like these line costs, which must be expensed in the month they are incurred. Scott’s plan will spread the costs over a much longer period, buying the company time for a turnaround.

As quarters pass, the accountants commit themselves further and further to a path of deceit. Almost a year has passed since Betty and Troy wrote their resignation letters. Still, the letters are unsent. Each quarter, David and his three accountants hope for better news, but the telecommunications sector continues to deteriorate. At home, life goes on with husbands, wives, and children, and, at times, the accountants can focus on other things—the parts of their jobs they love, their children’s activities. But still, shelved in a corner of their minds, their actions weigh heavier and heavier, taking a physical and emotional toll. Buddy eventually visits an attorney to discuss his options, but ultimately doesn’t take any action. Betty struggles to sleep and begins losing weight.

It’s October, 2001. David is reviewing the company’s results for the third quarter. Things are getting worse, not better. For the first time during David’s tenure with the company, WorldCom is not making a profit.

“Scott, how are we going to stop this?” David asks, desperate for a solution.

Hearing no good answers, he realizes in his heart that, for the foreseeable future, nothing will change. He has begun to feel deeply depressed. He withdraws and becomes distant from his family, and no longer wants to go out and visit with friends.

Eventually, David starts thinking of taking his own life. Maybe it would be better to just end it all, he thinks. He punches the accelerator of his BMW to see how much speed it will take before spinning out of control. He watches the speedometer rise to 80, 90, 100, 115 miles per hour. But he always takes his foot off the gas pedal. It’s no good. Taking his life is not the answer to his problems.

David’s increasingly dark moods have not gone unnoticed by his wife Lynn. As they look out over the calm lake behind their home, the scene is peaceful, but Lynn is tense. She’s been watching her husband, the man she adores and loves deeply, suffer under the extraordinary stress of his job. David hasn’t told her what’s going on at work, but a wife can tell when something is terribly wrong. She misses the old David. She and her son need him to come back.

“You’re somewhere else,” she says. “We have a baby. You work all the time. Why not quit?”

David tries to comfort her. He explains that he can’t quit yet, but he doesn’t share with her the real reason for his distress. With Lynn’s encouragement, David finally goes to see a doctor and begins taking an antidepressant. It helps his moods, but it can’t fix the source of his anguish.

David ponders various options, but there seems to be no good way out of his dilemma. It’s too late to quit. He’s already participated in the deception; if it ever comes out, the road will lead back to him. He still feels loyalty to Scott, and an obligation to Buddy, Betty, and Troy, whom he's talked into seeing this through. His team depends on him. He can't just leave them to deal with this.

Plus he has a wife and baby to support. His $240,000 salary would be virtually irreplaceable in Jackson. If things turn around, maybe, down the road, he can leave. Then he can start a new life, maybe go into business for himself, and finally be free of all this. But the slippery slope leaves few options.